

Message Text

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PAGE 01 BONN 09957 121713Z

63

ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 EB-11 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

RSR-01 /135 W

----- 066059

R 121631Z JUL 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6248

INFO AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY THE HAGUE

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

UNCLAS BONN 9957

DEPT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: BUNDESBANK REFRAINS FROM TAKING MONETARY ACTION - SECOND
TRANCHE OF STABILITY LOAN DECIDED

1. CONTRARY TO SOME EXPECTATION IN THE MARKET, THE CENTRAL BANK
COUNCIL OF THE BUNDESBANK AT ITS JULY 12 MEETING DID NOT TAKE ANY
ACTION TO COUNTERACT THE LIQUIDITY INCREASE DUE TO RECENT MONEY
INFLOWS.

2. ON JULY 10 THE FEDERAL LOAN CONSORTIUM DECIDED ON THE CONDI-
TIONS FOR THE SECOND TRANCHE (DM 750 MILLION) OF THE STABILITY
LOAN. THE COUPON OF THE LOAN WILL BE 10 PERCENT, THE ISSUE PRICE
100 AND THE MATURITY 8 YEARS. DM 500 MILLION OF THE LOAN WILL BE
PUBLICLY OFFERED IN THE PERIOD JULY 16-20, THE REMAINING DM 250
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PAGE 02 BONN 09957 121713Z

MILLION WILL BE TAKEN OVER BY THE BUNDESBANK, AND WILL BE USED

FOR OPEN MARKET POLICY AND PRICE SUPPORTING PURPOSES. PREFERENCE IN SUBSCRIPTION TO THE LOAN WILL AGAIN BE GIVEN TO PRIVATE INDIVIDUALS.

3. IN ITS MONTHLY REPORT FOR JULY (TO BE PUBLISHED TOMORROW) THE BUNDESBANK CALLS ATTENTION TO THE FACT THAT THE LATEST "PURCHASING POWER PARITIES" CALCULATED FOR APRIL BY THE FEDERAL STATISTICAL OFFICE INDICATE THE PURCHASING POWER OF ONE DOLLAR TO BE EQUIVALENT TO THAT OF DM 3.17. WHILE THE REPORT CONCEDES THAT MANY OTHER FACTORS PLAY A ROLE IN DETERMINING EXCHANGE RATES, PARTICULARLY IN THE SHORT RUN, THE BUNDESBANK CONCLUDES THAT IN THE LONG RUN PURCHASING POWER PARITIES CANNOT REMAIN WITHOUT ANY INFLUENCE ON MARKET RATES.

4. IN JUNE GERMAN COST-OF-LIVING INCREASED FURTHER BY 0.7 PERCENT. COMPARED WITH JUNE 1972 THE COST-OF-LIVING WAS 7.9 PERCENT HIGHER AS COMPARED WITH YEAR-TO-YEAR GROWTH RATES OF 7.8 PERCENT IN MAY, 7.5 PERCENT IN APRIL AND 6.7 PERCENT IN THE FIRST QUARTER OF 1973.

5. IN A PRESS CONFERENCE BUNDESBANK PRESIDENT KLASSEN INDICATED THAT THE BUNDESBANK WILL CONTINUE TO USE OPEN MARKET OPERATIONS TO ABSORB EXCESS COMMERCIAL BANK LIQUIDITY. KLASSEN ALSO STRONGLY DENIED PRESS REPORTS THAT THE FEDERAL RESERVE SYSTEM STAND ONLY HALF-HEARTEDLY BY THE RECENT BASLE AGREEMENT ON MARKET INTERVENTIONS. HILLENBRAND

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